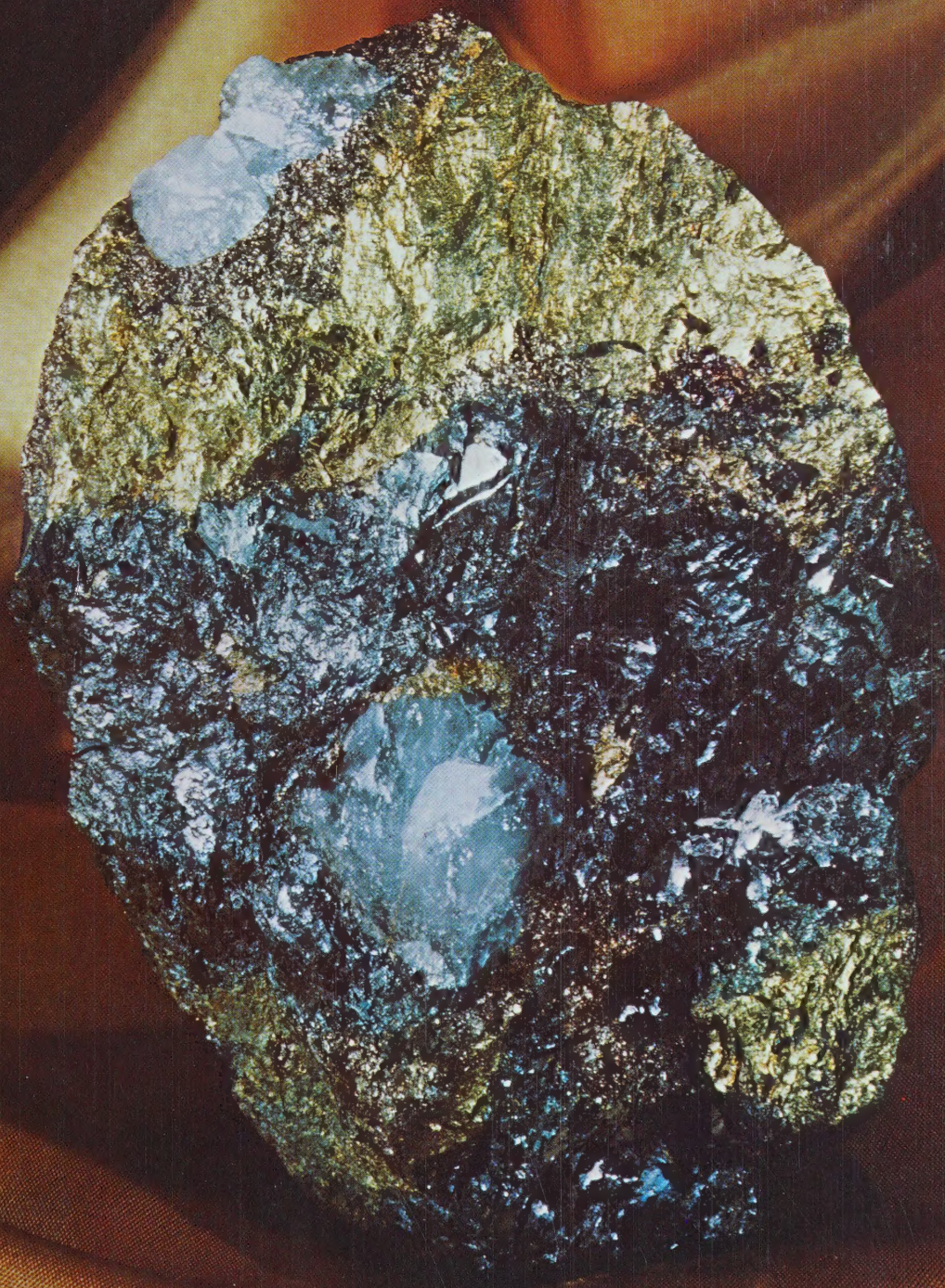


AR13

PATINO, N.V.
1978
ANNUAL REPORT



patiño, n.v.

Directors and Officers

Antenor Patiño R., *Chairman of the Board, Director*
Jaime Ortiz-Patiño, *Deputy Chairman of the Board, Director*
Patrick J. Keenan, C.A., *President and Chief Executive, Director*
Daniel Azéma, *Director*
Marco P. Bloemsma, *Director*
William G. Brissenden, *Director*
Sir James Goldsmith, *Director*
Pierre M. Haas, *Director*
Frederic Y. McCutcheon, *Director*
Stephen P. Ogryzlo, *Director*

Ronald E. Ford, *Vice President, Mining*
William A. Thompson, C.A., *Secretary-Treasurer*
John Mason, A.C.M.A., *Group Financial Accountant*

Head Office

Catsheuvel 6, 12th Floor
2517 JZ The Hague, The Netherlands
Telephone (070) 554318
Telex 32012 PATNV NL

Bankers

Bank Mees & Hope N.V.
Bank of Montreal
Toronto-Dominion Bank

Stock Exchanges

Toronto and Montreal

Transfer Agents and Registrars

Patiño, N.V., The Hague
National Trust Company, Ltd., Toronto and Montreal

Auditors

Price Waterhouse & Co.

Annual General Meeting of Shareholders

27th April 1979
10:30 a.m. The Hague time
Promenade Hotel
van Stolkweg 1
The Hague, The Netherlands

Notice, Proxy and Information Circular
will be mailed under separate cover

financial highlights

(dollar figures in this report are expressed in United States currency unless otherwise stated)

For the year ended 31st December

1978

1977

(thousands)

restated

Income before extraordinary items	\$ 7,382	\$ 5,863
* per share	\$ 2.08	\$ 1.42
Extraordinary items	\$ 1,269	\$ (86)
* per share	\$ 0.36	\$ (0.02)
Net income	\$ 8,651	\$ 5,777
* per share	\$ 2.44	\$ 1.40
Cash flow from operations	\$ 14,419	\$ 11,096
* per share	\$ 4.07	\$ 2.69
Expenditures on fixed assets, mine development and mining properties	\$ 4,692	\$ 3,838

At the Year End

Working capital	\$ 60,153	\$ 49,097
Shareholders' equity at book value	\$ 94,264	\$108,996
** per share	\$ 31.30	\$ 26.51

* Based on 3,538,613 shares (1977 — 4,120,493 shares) being the weighted average number of shares outstanding (excluding shares held by a wholly-owned subsidiary) during the year.

** Based on 3,011,527 shares (1977 — 4,111,382 shares) being the number of shares outstanding (excluding shares held by a wholly-owned subsidiary) at the end of the year.

COVER:

This photograph is an ore specimen from the Lemoine mine containing chalcopyrite and sphalerite.

directors' report to the shareholders

Financial

The results achieved in 1978 were most encouraging given the depressed prices for copper and zinc metal which existed during much of the year.

Income before extraordinary items was \$7.38 million or \$2.08 per share and net income was \$8.65 million or \$2.44 per share compared with \$5.86 million or \$1.42 per share and \$5.78 million or \$1.40 per share in 1977.

In the Third Quarter Report for 1978 shareholders were advised that the company had transferred its 53% equity interest in Amalgamated Metal Corporation Limited (AMC) to Preussag A.G. for 948,854 shares of the company and \$5.5 million. As explained in Note 1 of the financial statements, AMC has been deconsolidated and the company's share of its earnings to 30th June 1978, being \$1.71 million, has been taken directly to retained earnings. Prior years have been restated to reflect the deconsolidation and the company's share of AMC's earnings has been included in equity income.

The company, acting on behalf of a wholly-owned subsidiary, announced a stock exchange bid for its shares on 14th September 1978. A total of 151,001 shares were acquired under the terms of this offer which terminated on 29th December 1978, and minor market purchases early in the year.

The combined effect of these two transactions has been to increase the number of shares held by a wholly-owned subsidiary by 1,099,855. At 31st December 1978, 3,011,527 shares were outstanding (excluding shares held by a wholly-owned subsidiary) compared with 4,111,382 in 1977.

Canadian Mines (100% Equity)

Following a break-even year in 1977 and a slow start in 1978, earnings accelerated in the last half of the year resulting in a reasonable profit overall of \$3.68 million. Contributing factors were gold and copper price increases and improved productivity from the increased use of trackless ore handling equipment. However, the continuing escalation of employment costs gives cause for serious concern.

At the Copper Rand mine development work on the

internal shaft and decline progressed on schedule and diamond drilling in this general area outlined sufficient ore to more than replace the 680,000 tons milled. Development work and diamond drilling in 1979 and 1980 should add important new tonnages to reserves.

An intensive exploration program has been undertaken at Lemoine.

Companhia Estanífera do Brasil S.A. — Cesbra (94% Equity)

The company's share of Cesbra's profits before extraordinary items declined by about 10% to \$1.92 million. However, an extraordinary gain of \$1.27 million resulting from the disposal of a commercial real estate property increased net income to \$3.19 million. In 1977 net income was \$1.69 million after an extraordinary loss of \$537,000 due mainly to the write-off of a mining property.

In accordance with a program announced two years ago, Cesbra stepped up its exploration for tin deposits. Exploration expenditures in 1978 were \$764,000 as against \$301,000 in 1977.

Cesbra's equity in Mibrasa was increased to 100% in November, 1978 after Phibro S.A. agreed to sell its 50% interest for \$5 million cash. This purchase is viewed as an important positive development. Mibrasa has several interesting mineral prospects, the main one being the Taboquinha tin reserves in Santa Bárbara, Rondonia.

The Brazilian Government announced on 25th January 1979 the gradual phasing out of all export incentives. This development poses a major threat to our plans of profitably expanding our base of operations in Brazil. Increased earnings must be obtained from new and expanded mining activities to counter the growing effect this change in legislation will have on future income.

Preussag A.G. Offer For Amalgamated Metal Corporation Limited

Following is an extract from the announcement made by your company on 28th July 1978 which was referred to in the Second Quarter Report released on 21st August 1978:

"... agreement has been reached with Preussag A.G. of Hannover, West Germany, whereby

Preussag will acquire the 53% equity interest in Amalgamated Metal Corporation Limited ("AMC") of London, England, held by Patiño and will relinquish its 30% shareholding in Patiño, which it acquired in March, 1977.

Under the terms of the agreement, Preussag will make an offer to acquire all the issued ordinary share capital of AMC and, as one of the alternatives, Preussag's shares in Patiño will be offered to all AMC shareholders with a pound sterling cash alternative of approximately Can. \$7.14 per share. There are 6,285,298 AMC ordinary shares outstanding and the value of the transaction is Can. \$44.9 million, of which Can. \$23.9 million is to be satisfied by the distribution by Preussag of its Patiño stake. This values the 1,264,550 Patiño shares held by Preussag at Can. \$18.94 per share. Patiño has undertaken irrevocably to accept the offer in respect of its entire holding in AMC and to elect to receive as consideration Patiño shares to the maximum extent possible. . . "

As a result of the above transaction a wholly-owned subsidiary of your company received 948,854 shares of Patiño, N.V. and \$5.5 million in cash on 12th October 1978.

Stock Exchange Bid

The purpose of the bid was to afford the public shareholders of the company an opportunity to sell their common shares at a price equal to the price obtained by Preussag A.G. in the transaction previously referred to. In order to reflect the weakness in the Canadian dollar versus the pound sterling, the bid was made at a price of Can. \$20.125 per share, a price in excess of the market price for the company shares on 14th September 1978, the date on which the offer was made. There were 139,648 shares tendered under the terms of this offer which expired on 29th December 1978.

Exploration

The company has embarked on exploration programs in Canada, the United States and Brazil. Group budget for 1979 will be \$3.8 million, sharply higher than the \$2.1 million spent in 1978.

Litigation

The dispute between the company and BRGM is fully reported on page 9. The company and BRGM

have submitted briefs to the Arbitration Tribunal of the International Chamber of Commerce and a ruling is expected shortly on its authority to hear this dispute.

Canbrusa Mining, N.V.

At 31st December 1978 Canbrusa Mining, N.V. owned 2,493,969 shares of the company, being 82.8% of the issued and outstanding shares (excluding 1,364,473 shares held by a wholly-owned subsidiary).

Outlook for 1979

Much will depend on whether recent metal price levels hold through 1979, or remain at least in major part. If they do, a further improvement in earnings can be expected.

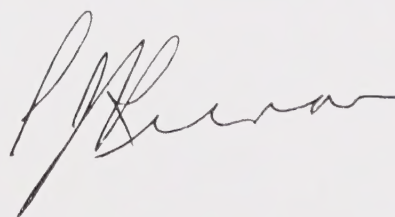
The company's objectives are:

- (i) to obtain payment in full of the company's claims in the BRGM dispute,
- (ii) to acquire a major interest in the resource industry in North America, and
- (iii) to expand its tin mining operations in Brazil.

Cash reserves, which are indispensable in achieving these objectives, are being accumulated. Consequently, your Directors are not recommending that a dividend be paid until the financing required becomes better known.

The progress made in recent years, despite a series of economic, political and other obstacles, offers convincing proof that our employees are dedicated and able to develop the company's interests. We wish to thank them on your behalf for another splendid effort.

On behalf of the Board of Directors



President and Chief Executive
The Hague, 9th March 1979

patño mines (quebec) limited — pmq

(100% Equity)

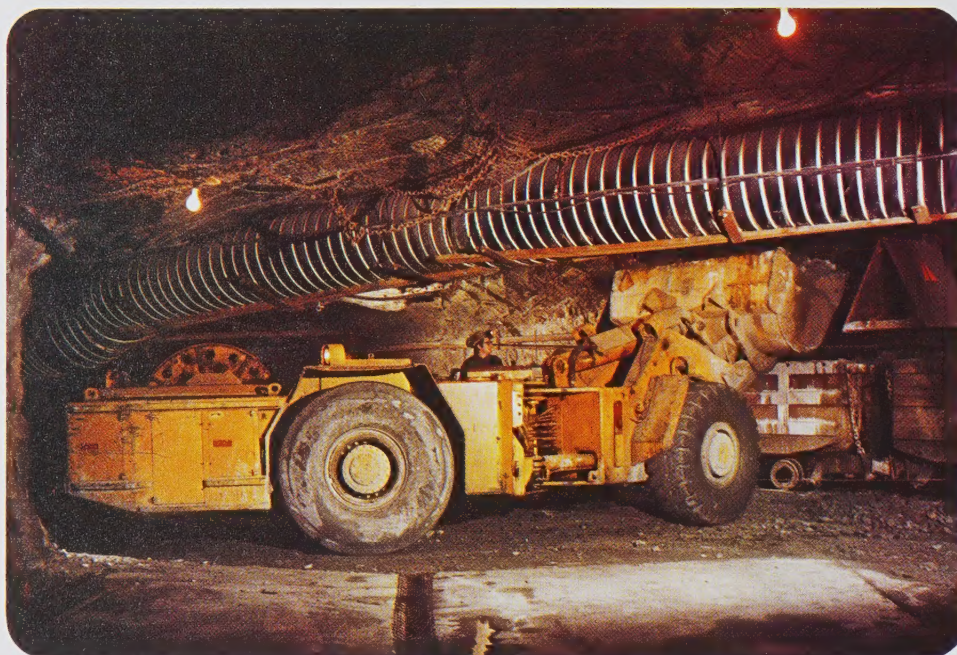
During 1978 the concentrator treated 680,000 tons of ore, an average of 1,862 tons per day, compared with 667,000 tons and 1,827 tons respectively in 1977. Copper and silver production of 20.77 million pounds and 137,000 ounces was less than the 22.49 million pounds and 142,000 ounces produced in 1977. Gold production in 1978 at 52,000 ounces was unchanged from 1977.

The significant improvement in gold prices has placed increased emphasis on mining ore with higher gold content and led to an extensive investigation of methods

to improve recoveries. Larger flotation cells were installed in the concentrator during 1978 and further equipment additions are planned for 1979.

The hangingwall zone of the Copper Rand mine continued to be the major source of production. Mine exploration and development during the year added a total of 791,000 tons to ore reserves, more than offsetting the tonnage mined.

The declined roadway and internal shaft started in 1977 to develop the mine below the 2700-level were both



5 cubic yard electric scoop tram, added in 1978, being used to accelerate lower level development at the Copper Rand mine.

Production Statistics

	1978	1977
Copper (lb)	20,774,000	22,487,000
Gold (oz)	52,000	52,000
Silver (oz)	137,000	142,000
Short tons milled	680,000	667,000
Grades of ore mined:		
Copper (%)	1.60	1.74
Gold (oz/ton)	0.099	0.107

completed to the 2850-level and development at this elevation has confirmed and added to previous ore estimates. The shaft and decline are being extended to open up three more levels at 3,000, 3,150 and 3,300 feet, and production will commence in 1979 in the major ore lenses on the 2850-level. The purchase and installation of new electric scoop trams has significantly improved progress in the decline and on the 2850-level and also has increased production from the larger stopes.

The shortage of skilled miners has caused the company to extend its training program for new employees and this, plus accelerated development of the lower levels, has resulted in an increase in the number of employees to 414 from 366 in 1977.

The Collective Agreement with the United Steelworkers of America, Local 5914, was renewed for a further three years to 14th April 1981.



Recently completed hoist installation at the 2700-level in the Copper Rand mine.

Ore Reserves

	31st December 1978			31st December 1977		
	Short tons	Cu %	Au oz	Short tons	Cu %	Au oz
Copper Rand to 2,850 feet	4,099,000	1.82	0.061	3,988,000	1.79	0.060
Kerr Addison to 1,170 feet	111,000	1.80	0.025	111,000	1.80	0.025
Portage to 2,550 feet	1,579,000	1.43	0.050	1,579,000	1.43	0.050
Total	5,789,000	1.71	0.057	5,678,000	1.69	0.057

A major portion of the Portage reserves are not economic at present metal prices.

Since commencement of operations in 1960, approximately 13.6 million tons of ore have been milled.

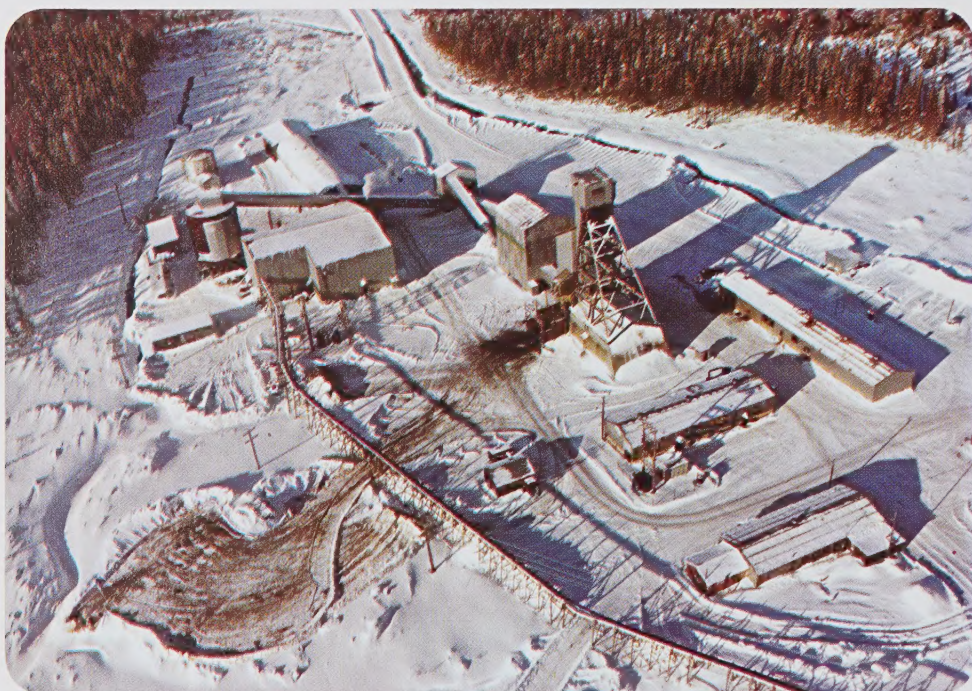
lemoine mines limited — lemoine

(100% Equity)

The Lemoine concentrator treated 116,000 tons of ore during 1978, an average of 319 tons per calendar day, compared with 122,000 tons and 333 tons respectively in 1977. The accountable metals in the concentrates produced in 1978 were 10.9 million pounds of copper, 20.05 million pounds of zinc, 251,000 ounces of silver and 14,000 ounces of gold compared with 1977 accountables of 10.51 million pounds of copper, 19.15 million pounds of zinc, 267,000 ounces of silver and 14,000 ounces of gold. The increased production of copper and zinc in 1978 resulted from the higher grade of ore treated.

The shrinkage stopes between the 620 and the 1070-levels have now been mined out and backfilled and the stopes on the upper levels will supply the ore for production in 1979.

Exploration drifting to the east and west along the ore bearing horizon was continued on the 920-level without locating any new ore. The shaft was deepened one level and a crosscut started to intersect the ore zone on the 1220-horizon.



Aerial view of the Lemoine mine surface facilities.

Production Statistics

	1978	1977
Copper (lb)	10,907,000	10,505,000
Zinc (lb)	20,049,000	19,147,000
Gold (oz)	14,000	14,000
Silver (oz)	251,000	267,000
Short tons milled	116,000	122,000
Grades of ore mined:		
Copper (%)	4.97	4.67
Zinc (%)	11.18	10.64
Gold (oz/ton)	0.155	0.155
Silver (oz/ton)	2.76	2.94

Ore Reserves

		Tons	Cu %	Zn %	Au oz	Ag oz
to 1,220 feet	1978	349,000	4.59	10.27	0.150	2.63
to 1,070 feet	1977	427,000	4.45	10.04	0.143	2.54

companhia estanífera do brasil s.a. — cesbra

(94% Equity)

During 1978 the tin smelter at Volta Redonda treated 6,553 tons of concentrate producing 3,580 tons of tin; in 1977 tonnages were 6,589 and 3,681 respectively. Export sales increased from 61.5% of total tin sales in 1977 to 71.3% in 1978. This increase in exports coupled with the stabilization of tin prices in the last half of 1978 resulted in sharply improved earnings in this period after a disappointing first half caused by lower trading margins and a reduction in export incentives.

Heavy rains in early 1979 have severely restricted transportation in both Brazil and Bolivia and curtailed the delivery of concentrates to the smelter. As a result, earnings in the first half of 1979 will be adversely affected.

As noted in the Third Quarter Report, the company sold for cash a commercial real estate property surplus to its requirements.

In November, using internally generated funds, the company increased its ownership of Mineração Brasiliense S.A. (Mibrasa) to 100% by purchasing for \$5 million in cash the 50% of the equity held by Phibro S.A. Mibrasa operated a washing plant at Santa Bárbara and a dredge at Candeias producing 468 tons of tin in concentrate. Production at Candeias stopped for three months while the bow gantry of the dredge was replaced and the bucket ladder repaired. Dredge throughput has been reduced in early 1979 as a result of damage to the dredge dam caused by heavy rains.

The company owns 50% of Dragagem Fluvial, S.A. (balance held by Hannaco Empreendimentos e

Participações Ltda.) which in turn has a 50% interest in a joint venture with Mineração Tejuca S.A., a subsidiary of Union Minière, to dredge for diamonds and gold in the Jequitinhonha River in the State of Minas Gerais. The venture operated at a small profit in 1978.

The general exploration program was substantially expanded in 1978 and properties were examined throughout the country. This level of activity will be maintained in 1979 but will be concentrated almost solely on exploration for tin, mainly in the territory of Rondonia.

Detailed exploration continues on four major projects:

(1) **Santa Bárbara — Rondonia**

The Taboquinha reserves were significantly enlarged during the year and drilling is continuing to detail the deeper sections of the deposit and to add to its length. A feasibility study is underway and the new drilling will provide information for a preliminary mining plan and equipment selection.

(2) **Jequitinhonha River — Minas Gerais**

A joint venture with Hannaco Empreendimentos e Participações Ltda. is outlining by drilling and bulk sampling an alluvial diamond-gold deposit preparatory to a full feasibility study.

(3) **Rio das Mortes — Minas Gerais**

A drilling program to further test the potential of this holding is continuing. It is a complex alluvial deposit containing tin, gold, tantalum and niobium.



Washing plant operating at the Santa Bárbara mine.



A section of the electrolytic tank house at Cesbra's tin smelter in Volta Redonda.

(4) Olho D'Agua — Rondonia

There are indications of shallow tin-bearing alluvials. Detailed geology and drilling have begun to test the potential for large, deep deposits.

The cruzeiro devalued in relation to the U.S. dollar by just over 30% in 1978, about the same as in 1977 but the cost of living increased by about 2% to 38.1% for the year in spite of government measures introduced to reduce the rate of increase.

In January, 1979, under arrangements with GATT, the Brazilian Government introduced a program to remove both incentives to exports and impediments to imports. The program called for an immediate reduction of 10% in the levels of export incentives and 100% prior import deposits with further reductions of 5% each calendar quarter beginning 1st April 1979 until both are completely eliminated in June, 1983.

Accompanying the above changes, the Minister of Finance advised that the cruzeiro devaluation would accelerate by about 25% over the period to compensate exporters for this reduction.

Because of the significance of exports to the company, the reductions in export incentives from 20% will adversely affect profitability in 1979 and subsequent years. However, it is expected this will be offset by increased production from wholly-owned Mibrasa.

compagnie française d'entreprises minières, métallurgiques et d'investissements s.a. — cofremmi

(10% Equity)

An agreement was concluded with Bureau de Recherches Géologiques et Minières (BRGM) on 12th May 1976 whereby the company transferred 90% of Cofremmi's equity to BRGM for —

- (a) a fully paid 10% shareholding in Cofremmi with a share capital of up to \$110 million,
- (b) a cash payment of \$9 million,
- (c) royalty and profit participation to a minimum amount of \$7.8 million,
and the following options —
- (d) when the financing requirements have been determined, the company may elect not to participate in the project and to the extent that its share of equity called is less than 50 million French francs (\$11 million), the company may convert the deficiency to royalty and profit participation, and
- (e) if a foreign shareholder is invited to acquire an interest in Cofremmi, the company has the right to require that its shareholding and royalty/profit participation be acquired in priority for cash.

With respect to these options, the company accepted to participate in an increase in the share capital of Cofremmi which resulted from the transfer by BRGM of its Ile Art deposit to Cofremmi, in accordance with the agreement dated 29th March 1976, in exchange for 25 million French francs of paid up capital and a 15 million French franc credit to be reimbursed through royalties and profit participation. The share capital was increased from 45 million to 72.8 million French francs which, at the contractually agreed exchange rate, translates to \$10 million and \$16.2 million, respectively. Therefore, to enable the company to retain a 10% equity interest, the company has now subscribed for \$1.62 million of its total entitlement of \$11 million.

The Board of Directors of Cofremmi has been authorized to increase the share capital to a maximum of 158.4 million French francs (\$35.2 million) before 1st November 1983. The company has confirmed that it will subscribe for its pro-rata share of such increase which amounts to a maximum of 8.6 million French francs (\$1.9 million).

As set out in (d) above, the company will not be required to make any cash payment for its share subscription.

Ore reserves are:

		Dry metric tons	
Tiebaghi	Garnierite ore	13,300,000	2.90% Ni
	Laterite ore	12,600,000	1.20% Ni + Co
Poum	Garnierite ore	35,000,000	2.15% Ni
	Laterite ore	41,000,000	1.34% Ni + Co
Ile Art	Garnierite ore	11,000,000	2.80% Ni + Co

BRGM and a major U.S. mining company announced on 1st March 1978 that they had signed an agreement to develop the New Caledonia nickel properties held by Cofremmi. Under the terms of this agreement a new holding company was formed to which BRGM transferred its 90% interest in Cofremmi and in which BRGM holds 51% of the equity and the major U.S. mining company 49% of the equity. In the opinion of the company's counsel, this agreement allows the company to exercise the option referred to in (e) above and BRGM has been advised that the company wishes to exercise its option. BRGM formally advised the company that they did not agree with this interpretation. Acting on the advice of its counsel, and as reported in the Third Quarter Report to Shareholders, the company submitted its dispute with BRGM to arbitration under the Rules of the International Chamber of Commerce. The company and BRGM have submitted briefs to the Arbitration Tribunal of the Chamber which will initially rule on its authority to hear this dispute.



*Bulk sampling of
the Tiebaghi
garnierite deposit.*

EXPLORATION

Canadian exploration activities were concentrated in the Chibougamau region with particular emphasis being placed on the evaluation of the company's claims in the Lemoine area, near the mine and along the host structure. Detailed geological, geochemical and ground geophysical surveys were run with approximately 10,000 feet of drilling being carried out in the vicinity of the mine.

The exploration program in the general Chibougamau region involved the follow up of airborne anomalies detected by the Quebec Department of Natural Resources' INPUT surveys, geology and ground geophysics, as well as 8,300 feet of drilling on some of the more interesting anomalies.

Outside of Quebec, a more intensive program of property examination was started in 1978. Numerous prospects with a variety of commodities ranging from precious metals to energy and industrial minerals were evaluated.

Exploration activities in the United States were significantly increased as mineral properties were examined in Alaska, Arizona, Georgia, Idaho and Nevada.

In December, 1978 the company entered into a large scale existing exploration joint venture in Alaska with four partners, BP Alaska Exploration Inc., General Crude Oil Company, McIntyre Mines (Nevada) Ltd., and Union Carbide Corporation. This program will be carried out on lands held by the Doyon Native Corporation. Many interesting mineral showings have been discovered which will now be explored in detail. Emphasis is being



A silver prospect under examination in the Northwest Territories.

placed on high unit-value commodities such as gold, silver, tungsten, tin, molybdenum and uranium.

The major program of evaluation of high quality coal properties was continued in the eastern United States; the company's objective is the acquisition of operating properties with potential for expansion.

In Brazil the accent was on the search for tin, mainly in the Rondonia Tin Province where Cesbra's present mining operations are located. Detailed drilling along the Taboquinha River has outlined an ore grade alluvial deposit with depths to 45 meters. Drilling to expand the reserves is in progress and a preliminary feasibility study is underway.

Tin-bearing areas in other states such as Roraima, Amazonas, Para, Rio Grande do Norte, Mato Grosso, Goias, Bahia and Rio Grande do Sul were examined with inconclusive results. Although tin was our main interest, areas with other commodities such as tantalum, niobium and gold were also examined.

Further exploration is being conducted along the Jequitinhonha River in Minas Gerais to study the diamond-gold potential on claims held by Dragagem Fluvial (a joint venture between Cesbra and Hannaco Empreendimentos e Participações Ltda), downstream from the area which is being dredged by the Maria Nunez joint venture (Mineração Tejucana, Cesbra and Hannaco Empreendimentos e Participações Ltda).



Drilling Mibrasa's new deep tin deposit near Santa Bárbara, Brazil.

1) Copper

Mine production of copper in the Western World decreased by 130,000 metric tons to 6.2 million tons in 1978 contrary to earlier forecasts of increases. This reduction was due chiefly to lower production in Zaire (60,000 tons) and Canada (146,000 tons) which offset modest increases in Europe and the United States. Early forecasts for 1979 indicate that mine production will rise by 200,000 tons of which 90,000 tons are expected from the Sar Chesmak mine in Iran. However, recent events have led to a re-evaluation and the marked increases in copper prices in recent weeks reflect changing opinions on future levels of production and seem to indicate that much of the previously forecast production will not be attained. The possibility of production interruptions in many of the exporting nations and delays in starting new production combined with concern about the stability of major currencies have encouraged buying for inventory and speculation.

Production of refined copper in the Western World during 1978 is estimated to have been 7 million tons, little changed from 1977, but it is expected to increase by 150,000 tons in 1979 to 7.15 million tons.

Consumption of refined copper in the Western World in 1978 increased by 4% to 7.1 million tons compared with 6.8 million tons in 1977, with increases in the United States of 4.5%, in Japan of 9% and in Europe of only 1%. Consumption in 1979 is generally forecast to be at or above the 1978 level but this is contingent on a continued high level of business activity in the United States and elsewhere. During 1978 the surplus producer stocks of refined copper in the Western World were reduced by 45% and the LME warehouse stocks by about 50%. Although there is not an overall present shortage of copper, it is probable that speculation and consumer inventory growth will maintain copper prices at substantially higher levels than those prevailing in 1978.

2) Zinc

Western World mine production of zinc-in-concentrate is estimated to have been 4.7 million tons in 1978, virtually unchanged from 1977, and is expected to increase to about 5 million tons in 1979. Lower production in the United States, Peru and West Germany was largely offset by increases from Ireland and other countries.

Total zinc slab production in 1978 is estimated to be 4.2 million tons compared with 4.3 million tons in 1977 with current projections indicating a rise to 4.5 million tons in 1979 due to increased production in Korea, the United States, Canada, Italy and Western Europe.

Recent estimates are that zinc consumption in the Western World during 1978 increased to 4.4 million tons compared with 1977's consumption of 4.2 million tons and that in 1979 consumption will be well maintained overall despite a forecast moderate decrease in consumption in the United States.

3) Gold

Although the traditional stability of gold as an exchange medium has been recently affected by wide price fluctuations, investors seem confident that higher prices will not result in large increases in production in the foreseeable future. Currently, production levels are lower than they were several years ago.

Fluctuations in gold prices have reflected its relative attractiveness when compared with the return from other investments, as well as currency, monetary and political instability.

The failure of recent sales of gold from the IMF or the United States Treasury to depress the market, even at increased prices, is a strong indication of gold's future stability and its return to a more important role in the monetary system. Many central banks are now revaluing their gold reserves to free market prices and the European Common Market will use gold at its average price on world markets as a partial backing for its European Currency Unit. Thus the remonetization of gold in many industrial countries outside the United States has begun.

These factors indicate that recent gold prices can be taken as a fairly well established base, and that future trends to higher levels will only reflect the deterioration in value of other investment forms through inflation or political instability.

4) Tin

Western World production of tin-in-concentrates rose to an estimated 190,000 tons in 1978 compared with 185,000 tons in 1977. Tin metal consumption was down in 1978 to an estimated 167,000 tons (174,000 tons in 1977). The development of the three-piece can which requires less tin plate will affect consumption and only a marginal rise is forecast for 1979. Supplies of tin could also be affected by the conflict in S.E. Asia and of broader significance, production in 1979 will likely be affected by reduced gravel pump operations caused by higher oil prices. However, there are indications that G.S.A. stockpile legislation in the United States, including the bill to sell 35,000 tons of tin, will receive less resistance in 1979. It is expected that tin will be released from the stockpile by the fall of 1979 with the rate of release such that it will not have a major impact on the market.

patino, n.v. and subsidiaries

Consolidated Balance Sheet

(expressed in thousands of United States dollars)

Assets	31st December 1978	31st December 1977 restated
Current Assets		
Cash, short term investments	\$ 59,404	\$ 49,064
Marketable securities	1,147	1,241
Accounts receivable	11,354	11,733
Inventories	16,802	13,322
Taxes recoverable	615	565
	<u>89,322</u>	<u>75,925</u>
Investments and Advances		
Non-consolidated subsidiary	—	27,003
Associated companies	30	2,449
Unquoted securities	8,044	8,159
	<u>8,074</u>	<u>37,611</u>
Fixed Assets	32,352	28,556
Less: Accumulated depreciation	<u>20,101</u>	<u>16,614</u>
	12,251	11,942
Other Assets		
Mine development and mining property costs	40,974	36,744
Less: Amortization	<u>29,683</u>	<u>27,617</u>
	11,291	9,127
Long term receivable	<u>7,800</u>	<u>7,800</u>
	<u>19,091</u>	<u>16,927</u>
	<u>\$ 128,738</u>	<u>\$ 142,405</u>

Liabilities	31st December 1978	31st December 1977 restated
Current Liabilities		
Bank advances	\$ 10,645	\$ 13,153
Accounts payable and accruals	11,144	10,013
Taxes payable	5,753	2,030
Current portion of long term debt	1,627	1,632
	<u>29,169</u>	<u>26,828</u>
Long Term Debt	—	1,911
Deferred Taxes	4,509	3,812
Minority Interests	796	858
	<u>34,474</u>	<u>33,409</u>
Shareholders' Equity		
Share Capital		
Authorized 16,000,000 shares, par value		
Dfl. 5 per share <u>Dfl. 80,000,000</u>		
Issued and fully paid: 4,376,000 shares	6,229	6,229
Premium on shares issued	30,544	30,544
Retained earnings	86,118	75,754
	<u>122,891</u>	<u>112,527</u>
Less: 1,364,473 company shares acquired, at cost		
(264,618 shares in 1977)	28,627	3,531
	<u>94,264</u>	<u>108,996</u>
	<u>\$ 128,738</u>	<u>\$ 142,405</u>

patino, n.v. and subsidiaries

Consolidated Statement of Income

(expressed in thousands of United States dollars)

	Year ended 31st December 1978	Year ended 31st December 1977 restated
Revenue		
Net sales	\$ 98,102	\$ 84,152
Equity income of non-consolidated subsidiary	—	2,466
Equity income of associated companies	611	991
Interest income	4,634	2,945
	103,347	90,554
Costs and expenses		
Operating costs	82,720	71,061
Amortization and depreciation	4,638	7,330
Interest expense — long term	241	430
— short term	1,254	1,833
Currency translation adjustments	702	1,549
	89,555	82,203
Income before taxes, minority interests and extraordinary items	13,792	8,351
Taxes — current	5,541	2,092
— deferred	697	146
	6,238	2,238
Income before minority interests and extraordinary items	7,554	6,113
Minority interests	172	250
Income before extraordinary items	7,382	5,863
Extraordinary items	1,269	(86)
Net income	\$ 8,651	\$ 5,777
Earnings per share		
Before extraordinary items	\$ 2.08	\$ 1.42
After extraordinary items	\$ 2.44	\$ 1.40

Consolidated Statement of Retained Earnings

(expressed in thousands of United States dollars)

Balance, beginning of year	\$ 75,754	\$ 69,977
Adjustment to equity of non-consolidated subsidiary	1,713	—
Net income	8,651	5,777
Balance, end of year	\$ 86,118	\$ 75,754

patíño, n.v. and subsidiaries

Consolidated Statement of Changes in Financial Position

(expressed in thousands of United States dollars)

	Year ended 31st December 1978	Year ended 31st December 1977 restated
Financial resources were provided by:		
Income before minority interests and extraordinary items	\$ 7,554	\$ 6,113
Amortization and depreciation	4,638	7,330
Deferred taxes	697	146
Exploration expenditures written off	2,141	964
Equity income of non-consolidated subsidiary	—	(2,466)
Equity income of associated companies	(611)	(991)
	14,419	11,096
Proceeds from disposal of investment	28,045	—
Proceeds from disposals of fixed assets and mining properties	2,558	157
Decrease in investment in associated company due to acquisition of controlling interest	2,220	—
Dividends from non-consolidated subsidiary	671	815
Dividend from associated company	886	701
Other items	310	907
	49,109	13,676
Financial resources were used for:		
Fixed asset additions	1,805	2,176
Mine development and mining property costs	2,887	1,662
Non-current assets of subsidiary acquired, net	5,730	—
Acquisition of investments	390	—
Long term debt repayment	1,911	1,774
Minority interests	234	191
Company shares acquired	25,096	333
	38,053	6,136
Increase in working capital	11,056	7,540
Working capital, beginning of year	49,097	41,557
Working capital, end of year	\$ 60,153	\$ 49,097

patiño, n.v. and subsidiaries

Analysis of Changes in Working Capital

(expressed in thousands of United States dollars)

	Year ended 31st December 1978	Year ended 31st December 1977 restated
Increase (decrease) in current assets		
Cash, short term investments	\$ 10,340	\$ 3,930
Marketable securities	(94)	(24)
Accounts receivable	(379)	3,944
Inventories	3,480	1,944
Taxes recoverable	50	224
	<u>13,397</u>	<u>10,018</u>
Increase (decrease) in current liabilities		
Bank advances	(2,508)	(1,087)
Accounts payable and accruals	1,131	2,583
Taxes payable	3,723	995
Current portion of long term debt	(5)	(13)
	<u>2,341</u>	<u>2,478</u>
Increase in working capital	<u>\$ 11,056</u>	<u>\$ 7,540</u>

Signed for approval of:

Balance Sheet
Statement of Income
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Retained Earnings
Consolidated Statement of Changes in Financial Position
Analysis of Changes in Working Capital
Notes to Corporate and Consolidated Financial Statements
Five Year Consolidated Summary

D. Azéma
M. P. Bloemsma
W. G. Brissenden
Sir James Goldsmith
P. M. Haas
P. J. Keenan
F. Y. McCutcheon
S. P. Ogryzlo
J. Ortiz-Patiño
A. Patiño R.

Balance Sheet

(expressed in thousands of United States dollars)

Assets	31st December 1978	31st December 1977
Current Assets		
Cash	\$ 52	\$ 20
Marketable securities	1,131	1,224
Accounts receivable	42	530
	<u>1,225</u>	<u>1,774</u>
Investments and Advances		
Subsidiaries	93,983	107,927
	<u>\$ 95,208</u>	<u>\$ 109,701</u>
Liabilities		
Current Liabilities		
Accounts payable and accruals	\$ 712	\$ 406
Taxes payable	232	299
	<u>944</u>	<u>705</u>
Shareholders' Equity		
Share Capital		
Authorized 16,000,000 shares, par value		
Dfl. 5 per share Dfl. 80,000,000		
Issued and fully paid: 4,376,000 shares	6,229	6,229
Premium on shares issued	30,544	30,544
Retained earnings	86,118	75,754
	<u>122,891</u>	<u>112,527</u>
Less: 1,364,473 company shares held by a wholly-owned subsidiary, at cost (264,618 shares in 1977)	28,627	3,531
	<u>94,264</u>	<u>108,996</u>
	<u>\$ 95,208</u>	<u>\$ 109,701</u>

Statement of Income

(expressed in thousands of United States dollars)

Net income for the year	\$ 8,651	\$ 5,777
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Notes to Corporate and Consolidated Financial Statements

1. Accounting policies

The principal accounting policies followed by Patiño, N.V. are:

Basis of consolidation

The financial statements are prepared in accordance with generally accepted accounting principles in The Netherlands and include consolidated financial statements of the company and its subsidiaries. The consolidated financial statements include the results of subsidiaries acquired during the year from the date of purchase and include the results of subsidiaries sold during the year until the date of sale. On 14th September 1978 the company transferred its 53% equity interest in Amalgamated Metal Corporation Limited (AMC) to Preussag A.G. This transaction is more fully explained in Note 8. As a result, AMC has been deconsolidated and the company's share of its earnings to 30th June 1978 (\$1,713,000), as determined from management accounts, has been taken directly to retained earnings. Prior years have been restated to reflect the deconsolidation and the company's share of AMC's earnings has been included in equity income.

Currency translation

The financial statements are expressed in United States dollars. Current assets and current liabilities in currencies other than United States dollars are translated at year end rates of exchange. Other assets and liabilities not in United States dollars are translated at historic rates of exchange.

Transactions in currencies other than United States dollars are translated into United States dollars using rates of exchange prevailing during each period, except for amortization and depreciation which are translated at historic rates. Currency translation adjustments are shown separately in the statement of income.

Valuation of marketable securities and inventories

Marketable securities are carried at the lower of cost or market value.

Inventories, which are principally metals finished and in process, are generally stated at the lower of average cost or net realizable value.

Investments and advances

Associated companies, being more than 20% owned investments, are reported on the equity basis and the company's share of the income of associated companies is shown in the consolidated statement of income as equity income.

Unquoted securities are stated at cost, less amounts written off.

Fixed assets

Fixed assets are stated at cost with depreciation being provided on the straight line method at rates calculated to write off the assets over their estimated remaining useful lives.

Mine development and mining property costs

Amortization of mine development and mining property costs for operating properties is provided on the basis of the relationship between metals sold and ore reserves and is calculated to fully

offset these costs at the end of the estimated economic lives of the properties. Unamortized costs applicable to individual mines are written off if the recovery of such costs from future revenue appears uncertain.

Exploration expenditures are written off unless they relate to projects where production is probable.

Upon the sale or retirement of properties, the accounts are relieved of the cost and the related accumulated amortization and depreciation and any resulting profit or loss is reported in the statement of income.

Goodwill adjustments

The difference between the cost of investments in subsidiary and associated companies and the company's share of the underlying net assets at the time of acquisition is transferred to consolidated retained earnings.

Net sales

Net sales represents sales of metals and metal related products, including applicable export incentive grants, less sales taxes.

Taxation

The company follows the tax allocation basis of accounting with respect to all timing differences between reported income before taxes and taxable income.

Provision is made for dividend withholding taxes which would arise on dividend distributions out of the company's share of the distributable earnings of subsidiary and associated companies.

Earnings per share

The calculation of earnings per share is based on the weighted average number of shares outstanding (excluding shares held by a wholly-owned subsidiary) during the year.

2. Cash, short term investments

During the year a wholly-owned subsidiary placed US\$20,000,000 on deposit maturing 31st December 1979 at an interest rate fixed to 30th June 1980. At maturity the subsidiary may extend the deposit to 30th June 1980. Should the subsidiary elect not to extend the deposit at the maturity date or elect to terminate the deposit at any other time, profits or losses which result from the acquisition of this deposit by the bank will be for the account of the subsidiary.

3. Marketable securities

	1978	1977
	(thousands)	
Cost	\$ 1,147	\$ 1,241
Market value	\$ 2,229	\$ 1,552

4. Assets pledged to secure borrowings

Bank advances amounting to \$406,000 (1977 — \$7,467,000) of certain subsidiaries are secured by assets of these subsidiaries.

5. Fixed assets

	Land and Buildings	Machinery and Equipment	Total
		(thousands)	
Cost			
At 1st January 1978	\$ 7,334	\$ 21,222	\$ 28,556
Disposals	(1,228)	(480)	(1,708)
Additions	83	1,722	1,805
Additions on acquisition of subsidiary	—	3,699	3,699
At 31st December 1978	6,189	26,163	32,352
Depreciation			
At 1st January 1978	1,864	14,750	16,614
Disposals	(133)	(454)	(587)
Charge for the year	571	2,177	2,748
Depreciation on acquisition of subsidiary	—	1,326	1,326
At 31st December 1978	2,302	17,799	20,101
Net book value at 31st December 1978	\$ 3,887	\$ 8,364	\$ 12,251
Depreciation rates	0-10%	10-22%	

6. Compagnie Française d'Entreprises Minières, Métallurgiques et d'Investissements S.A. — Cofremmi

The investment in Cofremmi is represented by a 10% shareholding and royalty and profit participation amounting to \$18.9 million arising under the 12th May 1976 agreement with Bureau de Recherches Géologiques et Minières (BRGM). As a consequence of the agreement made between BRGM and a third party to develop the New Caledonia nickel properties held by Cofremmi, the company has given notice to BRGM that it wishes to exercise its option under the 12th May 1976 agreement to require that its investment and receivables be acquired for cash.

BRGM disputed the company's claim and the matter has been submitted to the Arbitration Tribunal of the International Chamber of Commerce. Pending the decision of the Tribunal, management considers that the investment and receivables are appropriately presented as long term assets.

7. Long term debt

The last instalment of the 7½% debentures issued by a subsidiary is repayable in 1979 and is reported as a current liability. The

debentures are secured by a first floating charge on the subsidiary's assets and are guaranteed by the company.

8. Investment in non-consolidated subsidiary

On 14th September 1978 the company's 53% equity interest in Amalgamated Metal Corporation Limited of London, England was transferred to Preussag A.G. of Hannover, West Germany for 948,854 shares of the company and £2.8 million (\$5.5 million) in cash.

9. Contingent liabilities

Officials of Revenue Canada have questioned the company's tax treatment of losses on commodity futures transactions in 1973 and 1974 and re-assessment notices for these two years were received in 1977. The potential liability for federal and provincial income taxes together with accrued interest with regard to this matter approximates Can.\$1.4 million. The company's professional advisers reaffirmed that the company has good arguments to support its case, and notices of objection for these re-assessments were filed with Revenue Canada in 1977. No provision has been made in the accounts for any possible income tax.

The Cree Indians initiated, in 1976, court action against the majority of the resource companies in North-Western Quebec for alleged mercury contamination. As part of this action, damages of Can.\$1,540,000 were claimed against the company, jointly and severally with other companies in the area. In the same action, the Cree Indians questioned the validity of the mining rights granted to the companies by the Province of Quebec. The company's legal counsel has reviewed all the evidence available to date and has prepared for the defence of this case. They believe that the company has a valid substantive defence and are confident that the actions will not succeed.

10. Amortization and depreciation

	1978	1977
	(thousands)	
Amortization of mine development and mining property costs	\$ 1,890	\$ 5,293
Depreciation	2,748	2,037
	<u>\$ 4,638</u>	<u>\$ 7,330</u>

11. Remuneration of Directors and senior officers of Patiño, N.V.

Eleven Directors received total direct remuneration of \$229,000 in 1978 (1977 — \$289,000). Directors and senior officers of the company, as defined by the Ontario Securities Act, received total direct remuneration of \$400,000 in 1978 (1977 — \$361,000).

12. Employee benefits

Pension benefits for substantially all employees are provided by payments to governmental authorities under national retirement programs. Contributions are made to various union pension plans for union employees and, on an actuarial basis, to corporate pension plans for non-union employees. At 31st December 1978 there was no significant unfunded past service liability.

Salaries, wages and related social charges incurred in 1978 amounted to \$10,639,000 (1977 — \$10,496,000).

13. Extraordinary items

	1978	1977
	(thousands)	
Gains on disposals of associated companies and other investments	\$ 1,350	\$ 312
Write down of carrying value of investments	(81)	(398)
	<u>\$ 1,269</u>	<u>\$ (86)</u>

Amounts are reported net of applicable taxation (1978 — \$463,000) and minority interests.

14. Appropriation of profit

In accordance with Article 15 of the company's statutes the profits available for distribution are at the disposal of the Annual General Meeting of Shareholders. The Directors did not declare an interim dividend and recommend that no dividend be paid for the year ended 31st December 1978.

Auditors' Report

We have examined the financial statements set out on pages 12 to 21 inclusive of Patiño, N.V. The financial statements of a subsidiary were examined by other auditors whose report thereon was furnished to us. Based on our examination and the work of other auditors, we are of the opinion that the accompanying financial statements present fairly the amount and the composition of the equity of the company at 31st December 1978 and of the results and changes in financial position for the year then ended.

The Hague
9th March 1979

Price Waterhouse & Co.*

*Signatory authorized under The Netherlands Civil Code, Book 2.

Five year consolidated summary

(expressed in thousands of United States dollars)

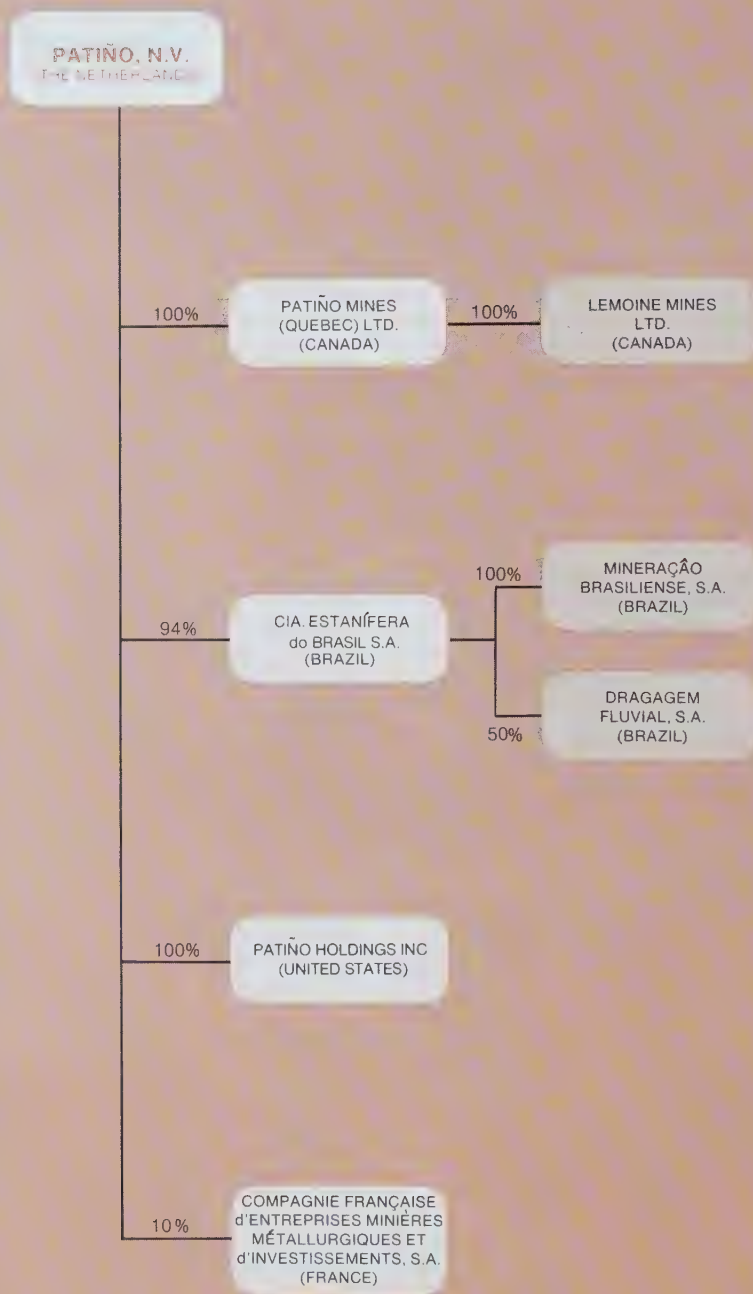
For the year	1978	1977 restated	1976 restated	1975 restated	1974 restated
Revenue					
Tin smelting	\$ 56,254	\$ 49,562	\$ 29,507	\$ 34,396	\$ —
Sales of mineral production	41,848	34,590	25,045	11,152	29,871
Net sales	98,102	84,152	54,552	45,548	29,871
Equity income of non-consolidated subsidiary	—	2,466	1,797	1,803	5,012
Equity income of associated companies	611	991	863	1,853	7,862
Interest income	4,634	2,945	2,681	2,026	1,656
Total revenue	\$ 103,347	\$ 90,554	\$ 59,893	\$ 51,230	\$ 44,401
Income (loss) before taxes, minority interests and extraordinary items					
Tin smelting	\$ 2,507	\$ 3,522	\$ 1,813	\$ (1,266)	\$ —
Sales of mineral production	8,782	478	302	(1,361)	8,567
Equity income of non-consolidated subsidiary	—	2,466	1,797	1,803	5,012
Equity income of associated companies	611	991	863	1,853	7,862
Other activities	1,892	894	1,538	(1,065)	862
	13,792	8,351	6,313	(36)	22,303
Taxes	6,238	2,238	657	(594)	4,901
Minority interests	172	250	157	(76)	(36)
Income before extraordinary items	7,382	5,863	5,499	634	17,438
Extraordinary items	1,269	(86)	12,663	3,520	927
Net income	\$ 8,651	\$ 5,777	\$ 18,162	\$ 4,154	\$ 18,365
* per share	2.44	1.40	4.36	0.96	4.20
Dividends paid	—	—	2,092	2,773	1,767
per share	—	—	0.50	0.65	0.40
At the year end					
Working capital	\$ 60,153	\$ 49,097	\$ 41,557	\$ 18,543	\$ 17,172
Investments	8,074	37,611	36,572	54,755	44,606
Fixed assets, net	12,251	11,942	11,960	12,322	10,982
Other assets	19,091	16,927	21,522	19,878	30,771
Long term debt	—	1,911	3,685	12,329	12,229
Deferred taxes	4,509	3,812	3,666	3,814	3,774
Minority interests	796	858	708	761	775
Shareholders' equity at book value	\$ 94,264	\$ 108,996	\$ 103,552	\$ 88,594	\$ 86,753
** per share	31.30	26.51	25.05	20.96	19.82
Shares issued at year end	4,376,000	4,376,000	4,376,000	4,376,000	4,376,000
Company shares acquired	1,364,473	264,618	241,555	149,400	—

* Based on the weighted average number of shares outstanding (excluding shares held by a wholly-owned subsidiary) during the year.

** Based on the number of shares outstanding (excluding shares held by a wholly-owned subsidiary) at the end of the year.

The above summary does not include any increases in the value of the group's ore reserves, development projects or holdings in land and buildings.

group structure



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Patiño Holdings Inc.
306 South State Street
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Delaware, U.S.A.

**Compagnie Française d'Entreprises
Minières, Métallurgiques et
d'Investissements, S.A.**
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Telex 610098 COFREMI F

Patiño Mines (Quebec) Ltd./Lemoine Mines Ltd.

Directors and Officers

William G. Brissenden, *Chairman of the Board, Director*
Harold E. Rudd, *President and Chief Executive, Director*
Ronald E. Ford, *Director*
L. Yves Fortier, Q.C., *Director*
Patrick J. Keenan, C.A., *Director*
Jaime Ortiz-Patiño, *Director*
Sidney H. Robinson, Q.C., *Director*

Colin M. Marshall, *Vice-President, Mining*
John H. Iglesias, *General Manager*
Donald H. Mather, *Secretary-Treasurer*

Companhia Estanífera do Brasil S.A.

Directors and Officers

Raymond R. Jackson, C.A., *President, Director*
Fausto M. Basto, *Finance Director*
Samuel A. Hanan, *Technical Director*
Carlos E. Lins, *Director*

Patiño Holdings Inc.

Directors and Officers

Jaime Ortiz-Patiño, *Chairman, Director*
Patrick J. Keenan, C.A., *President and Chief Executive, Director*
Ronald E. Ford, *Director*

Colin M. Marshall, *Vice-President*
W. A. Thompson, *Secretary-Treasurer*

**Compagnie Française d'Entreprises Minières,
Métallurgiques et d'Investissements S.A.**

Directors and Officers

René Michel, *President and Chief Executive, Director*
Robert R. Black, *Director*
Paul Henri Bourrelier, *Director*
John W. Goth, *Director*
Pierre Gousseland, *Director*
Patrick J. Keenan, C.A., *Director*
Yves Perrin, *Director*
Erika Tordjman, *Director*
Sté de Promotion de Mines, *Director*
(permanent representative, Henri Morin)

patiño, n.v.